

**REPORT OF
FINANCIAL EXAMINATION**

**HICKORY COUNTY FARMERS MUTUAL
INSURANCE COMPANY**

**AS OF
DECEMBER 31, 2004**

**STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI**

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June 30, 2005
Hermitage, Missouri

Honorable W. Dale Finke, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

HICKORY COUNTY FARMERS MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's home office and principal place of business is located at 107 Polk Street (P.O. Box 132) Hermitage, Missouri, telephone number (417) 745-6722. This examination began on June 29, 2005, and was concluded on June 30, 2005, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 1999, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2000, through December 31, 2004, and was conducted by examiners from the Missouri Department of Insurance.

This examination also included material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the State of Missouri

prevailed.

Comments-Previous Examination Report

There were no general comments or recommendations in the previous examination report.

HISTORY

General

The Company was originally organized and incorporated on May 27, 1892, as Farmers Mutual Aid Society of Hickory County. The Company changed its name to Hickory County Farmers Mutual Insurance Company on March 27, 1999.

The Company has a Certificate of Authority dated September 28, 1982, and is covered by Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company's Certificate of Authority is renewed annually.

Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the fourth Saturday in March, at the home office of the Company or at such other place as may be designated by the Board of Directors. Special meetings of the members may be called by the Board of Directors at any time and shall be called upon petition of one-fourth of the members. Eight members shall constitute a quorum at any membership meeting. Proxy voting is not permitted.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of five members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately two times per month. Compensation per each meeting attended is \$85 for the President and \$65 for all other directors.

Members serving on the Board of Directors as of December 31, 2004, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Donald Hunt Route 1 Box 46 Weaubleau, Missouri	Farmer/Retired Agent	2004-2007
Dale Costelow Route 1 Box 1815 Wheatland, Missouri	Farmer/Retired Agent	2002-2005
Gerald Shields Star Route Box 75 Hermitage, Missouri	Farmer	2003-2006
Donnie Vaughn Route 1 Box 17B Weaubleau, Missouri	Farmer	2002-2005
Justin Crawford Route 1 Box 1562 Hermitage, Missouri	Auctioneer	2003-2006

The Board of Directors appoints for a term of one year, a President, a Vice-President, and a Secretary, who may also serve as Treasurer when designated by the Board.

The officers of the Company serving at December 31, 2004, were as follows:

Donald Hunt	President
Donnie Vaughn	Vice-President
Teresa Bybee	Secretary/Treasurer

Conflict of Interest

The Company has written conflict of interest procedures for the disclosure of material conflicts of interest or affiliations by its directors and officers. The Company has its directors and officers sign conflict of interest statements on an annual basis, and no material potential conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. On March 22,

2003, the Articles of Incorporation and Bylaws were amended to reflect the Company's change from an assessable to a non-assessable mutual. The Bylaws were also amended to require two signatures on all checks.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. In addition, the Company's policies for investments and underwriting were reviewed. The minutes and records of the Company appear to properly reflect corporate transactions and events.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond providing a limit of liability of \$100,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$75,000 and \$100,000 in coverage.

The Company carries liability coverage for its directors and officers with an aggregate limit of \$2,000,000 and a \$5,000 deductible in aggregate for each claim.

The Company's agents are responsible obtaining their own errors and omissions liability coverage, and no reimbursement is made by the Company.

The Company also carries property insurance coverage on its home office and equipment, as well as business liability insurance.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has four full-time employees. The Company provides health and life insurance for the employees. The employees also receive five days of sick leave per year and one to four weeks of paid vacation per year, depending on the length of service to the Company. In addition, the Company provides health leave for employees who have exhausted all other leave balances. The employees may receive sixty

days of health leave at full pay and an additional sixty days of health leave at one-half pay. It appears the Company has made adequate provisions in its financial statements for the employee benefit obligations.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed by the Missouri Department of Insurance as an Extended Missouri Mutual Insurance Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri. The Company writes fire, wind and liability coverages. The Company's policies are sold by thirteen licensed producers, who receive a 15% commission.

Policy Forms and Underwriting Practices

The Company uses AAIS policy forms. The policies are written on a continuous period. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections are performed by the Company's inspector/adjuster and adjusting services are performed by the inspector/adjuster and an independent adjuster.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Assessment</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2004	\$1,688,563	\$909,735	\$2,374,917	\$1,048,978	\$34,787	\$156,360	\$268,275
2003	1,219,117	365,301	1,982,852	1,864,015	44,546	(311,350)	(248,181)
2002	1,498,444	162,772	1,683,811	1,148,287	54,060	45,805	98,238
2001	1,688,095	430,147	1,365,909	924,799	68,294	(49,480)	22,835
2000	1,411,663	169,243	1,334,626	642,599	66,031	79,240	150,130

At year-end 2004, 4,080 policies were in force.

REINSURANCE

General

The Company's reinsurance premium activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Direct	\$ 976,008	\$1,021,456	\$1,216,736	\$1,445,146	\$1,712,071
Assumed	358,618	344,453	457,075	537,706	662,846
Ceded	(581,294)	(667,907)	(793,209)	(970,096)	(1,264,916)
Net	<u>\$ 753,332</u>	<u>\$ 698,002</u>	<u>\$ 880,602</u>	<u>\$1,012,756</u>	<u>\$1,110,001</u>

Assumed

The Company is a member of the Missouri Mutual Reinsurance Exchange, which is a group reinsurance pool consisting of six Missouri mutual insurance companies and managed by Balis Reinsurance Management. Risk and premium assumptions are based proportionately on the risks ceded by each company to the pool in the prior year.

Ceded

The Company's reinsurance program is brokered through Guy Carpenter & Company, Inc. of Pennsylvania (Guy Carpenter) and consists of various contracts.

The obligatory surplus pooling reinsurance agreement with Missouri Mutual Reinsurance Exchange (MMRE) covers property risks. The Company retains \$20,000 per risk and the MMRE limit is \$60,000 per risk. The Company receives a ceding commission of 35% on premium ceded and is eligible for a bonus commission.

The obligatory first surplus reinsurance agreement also covers property risks. The Company retains \$20,000 per risk and the participating reinsurers are liable for up to four times the Company's retention,

with a maximum per risk cession of \$100,000. The per occurrence limit is equal to the annual premium ceded under the contract. The Company is also liable for loss and loss adjustment expenses incurred during the year exceeding 65% of earned premium, but not to exceed 10% of earned premium for the year. The Company receives a ceding commission of 25% on all premiums ceded under the contract. Participating reinsurers in 2004 included Arch Reinsurance Company (45.0%), Farm Mutual Reinsurance Plan, Inc. (20.0%), Toa Reinsurance Company of America (12.5%), Goshawk Reinsurance Limited (10.0%), QBE Reinsurance Corporation (7.5%) and Employers Mutual Casualty Company (5%).

The casualty excess of loss and special casualty excess of loss agreements apply to casualty risks. The Company retains \$25,000 per occurrence under the casualty excess of loss agreement, with the liability of the participating reinsurers limited to \$590,000 per occurrence. Premium under the agreement is 56% of net premiums, subject to an annual minimum premium of \$44,800. Under the special casualty excess of loss agreement, the participating reinsurers are liable for \$500,000 in excess of a \$500,000 retention per occurrence. Premium under the agreement is 35% of liability premium ceded. Risks written by the Company are limited to \$500,000 under both agreements. Participating reinsurers in 2004 were identical for both agreements and included Arch Reinsurance Company (45.0%), QBE Reinsurance Corporation (32.5%), Toa Reinsurance Company of America (15.0%) and Employers Mutual Casualty Company (7.5%)

The aggregate excess of loss and supplemental aggregate excess of loss agreements cover both property and casualty risks. Under the aggregate excess of loss agreement, the participating reinsurers are liable for 95% of losses in excess of 70% of the Company's net earned premiums or \$546,000, whichever is greater. The liability is limited to the lesser of 95% of 280% of the Company's net earned premiums or \$3,276,000. Premium under the agreement is 8.5% of the Company's net premiums, subject to an annual minimum premium of \$68,000. Under the supplemental aggregate excess of loss agreement, the participating reinsurers are liable for 100% of losses in excess of the Company's retention plus the participating reinsurers' limits under the aggregate excess of loss agreement, which is limited to 150% of

the Company's net earned premium for the year. Premium under the agreement is 1.1% of the Company's net premiums, subject to an annual minimum premium of \$8,800. Participating reinsurers in 2004 and respective percentages are identical to those in the previously noted casualty reinsurance contracts.

The Company has a property facultative binding authority reinsurance agreement under which it may cede risks in excess of the limits of the property reinsurance agreements. The Company receives a 30% ceding commission on risks ceded under the agreement. Participating reinsurers in 2004 included Arch Reinsurance (45.00%), Underwriters at Lloyd's of London (40.25%), Hartford Steam Boiler Inspection and Insurance Company (9.75%) and Farmers Mutual Hail Insurance Company (5.00%).

The Company has a casualty automatic binding excess of loss reinsurance agreement with Guy Carpenter to bind risks in excess of the limits in the casualty reinsurance agreements. The coverage is for \$500,000 in excess of the \$500,000 afforded by the agreements. The Company is allowed a 35% ceding commission.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

ACCOUNTS AND RECORDS

The accounting records are maintained by the Company on a modified cash basis. An annual review of the Company's financial statements is performed by Van de Ven, LLC, who also prepares the Company's Annual Statement and tax returns.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2004, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

ANALYSIS OF ASSETS
December 31, 2004

Bonds	\$ 789,266
Stocks	4,979
Real Estate	41,554
Cash on Deposit	710,886
Reinsurance Recoverables on Paid Losses	128,859
Interest Due and Accrued	7,043
Asset Write-Ins	5,976

Total Assets	\$ 1,688,563
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LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2004

Losses Unpaid	\$ 104,386
Ceded Reinsurance Payable	48,442
Unearned Premium	695,999
Liability Write-ins	60,908

Total Liabilities	\$ 909,735
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Guaranty Fund	\$ 277,042
Other Surplus	501,786

Total Surplus	\$ 778,828
	=====
Total Liabilities and Surplus	\$ 1,688,563
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STATEMENT OF INCOME
December 31, 2004

Net Premium	\$ 1,007,016
Reinsurance Commission	339,152
Net Losses Incurred	(395,107)
Other Underwriting Expenses	(794,701)

Net Underwriting Income (Loss)	\$ 156,360

Investment Income	\$ 34,787
Other Income	77,128

Gross Income (Loss)	\$ 545,371
Federal Income Tax	(0)

Net Income (Loss)	\$ 268,275
	=====

CAPITAL AND SURPLUS ACCOUNT
December 31, 2004

Policyholders' Surplus, December 31, 2003	\$ 853,816
Net Income (Loss)	268,275
Prior Year Adjustment to Record Unearned Premiums	(342,807)
Unrealized Loss on Marketable Securities	(456)

Policyholders' Surplus, December 31, 2004	\$ 778,828
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NOTES TO THE FINANCIAL STATEMENTS

There were no notes to the financial statements.

EXAMINATION CHANGES

There were no examination changes.

GENERAL COMMENTS AND RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.

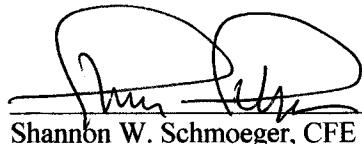
ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Hickory County Farmers Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Shannon W. Schmoeger on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.



Shannon W. Schmoeger, CFE
Financial Examiner
Missouri Department of Insurance

Sworn to and subscribed before me this 16th day of August, 2005.

My commission expires:

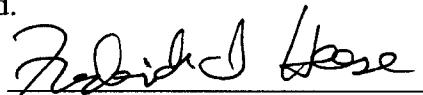
May 1, 2008

Debbie J. Nolke
Notary Public

DEBBIE J. NOLKE
Notary Public - Notary Seal
STATE OF MISSOURI
County of Boone
My Commission Expires May 1, 2008

SUPERVISION

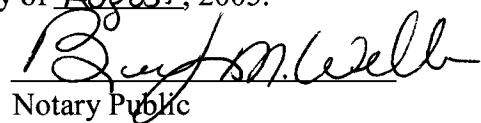
The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



Frederick G. Heese, CFE, CPA
Audit Manager
Missouri Department of Insurance

Sworn to and subscribed before me this 16th day of August, 2005.

My commission expires: 03-17-2008



Notary Public

BEVERLY M. WEBB
Notary Public - Notary Seal
STATE OF MISSOURI
Clay County
My Commission Expires March 17, 2008